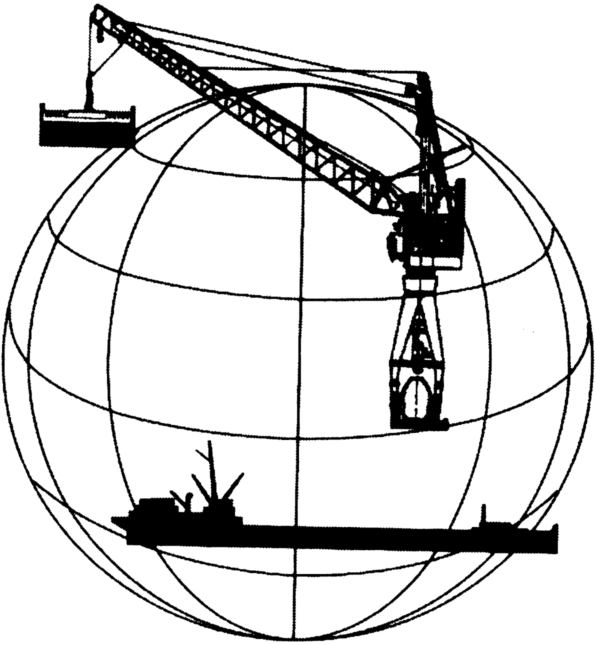
Federal Ship Financing Program



U.S. Department of Transportation
Maritime Administration

Introduction

The Federal Ship Financing Program (Program) provides for a full faith and credit guarantee by the United States Government for the purpose of promoting the growth and modernization of the U.S. merchant marine and U.S. shipyards. Below are some commonly asked questions about the Program:

Q. Does the Program provide funds similar to a bank financing?
A. No, the Program is a guarantee program and not a direct loan program. Funds are secured in the private sector with repayment guaranteed by the U.S. Government. However, the review process and documentation are similar in nature to private sector transactions.

Q. What projects are eligible?
A. Construction, reconstruction and reconditioning of commercial vessels in U.S. shipyards, U.S. shipyard modernization projects and certain refinancings on these type of projects.

Q. Who is eligible?
A. U.S. shipowners, foreign shipowners and U.S. shipyards.

Q. What is the length of the financing?
A. Up to 25 years depending on the type of project.

Q. What level of financing is available?
A. Up to 87-1/2 percent depending on the type of project.

Q. What is the normal amortization schedule?
A. The guaranteed debt is generally repaid through equal semi-annual payments of principal plus accrued interest (level principal).

Q. Are foreign components eligible for financing?
A. Yes, certain foreign items can be included in the costs to be financed provided the Maritime Administration (MARAD) grants a waiver.

Q. How is the interest rate determined?
A. The interest rate is set by the private sector which generally utilizes comparable U.S. Treasury obligations as a benchmark for rate determination. MARAD must determine that the rate is acceptable.

Q. Is the interest rate fixed for the entire term of the financing or is it a floating rate?
A. Historically, the interest rate has been fixed for the financing period. However, we have recently approved floating interest rates with certain restrictions.

Q. How long is the application processing time?
A. Approximately 60 days from the date the application is determined to be completed by MARAD.

Q. How can a company expedite the application process?
A. There are several ways in which the company can facilitate the processing of their application. First, it is strongly recommended that the company have meeting(s) with MARAD to discuss the project prior to actually filing the application. Second, when an application is filed make it

as complete as possible. Third, indicate to MARAD any unique aspects of the project that MARAD should consider. Finally, respond to MARAD's requests for information as completely and quickly as possible.

Q. What are the costs of using the Program?
A. The Program fees are described in detail in the Program fees section of this brochure. There are three fees due to MARAD: an application filing fee; an investigation fee; and a guarantee fee. Additional costs may be incurred to complete the application, document the transaction and place the debt obligation.

General Information

The Program, established pursuant to Title XI of the Merchant Marine Act, 1936, as amended (Act), provides for a full faith and credit guarantee by the U.S. Government of debt obligations issued by (1) U.S. or foreign shipowners for the purpose of financing or refinancing either U.S. flag vessels or eligible export vessels constructed, reconstructed or reconditioned in U.S. shipyards and (2) U.S. shipyards for the purpose of financing advanced shipbuilding technology and modern shipbuilding technology (Technology) of a privately owned general shipyard facility located in the U.S. The Program is administered by the Secretary of Transportation acting by and through the Maritime Administrator (Secretary). Under the Federal Credit Reform Act of 1990, appropriations to cover the estimated costs of a project must be obtained prior to the issuance of any approvals for Title XI financing.

Additional information and applications may be obtained from:

U. S. Department of Transportation
Maritime Administration
Director, Office of Ship Financing
400 Seventh Street, S.W., Room 8122
Washington, D.C. 20590
(202) 366-5744

Purpose of Program

The primary purpose of the Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. The Program enables owners of eligible vessels and eligible shipyards to obtain long-term financing with attractive terms.

Eligible Requirements

Vessels eligible for Title XI assistance generally include commercial vessels such as passenger, bulk, container, cargo, tankers, tugs, towboats, barges, dredges, oceanographic research, floating power barges, offshore oil rigs and support vessels, and floating drydocks.

Eligible Technology generally includes proven technology, techniques and processes to enhance the productivity and quality of shipyards, novel techniques and processes designed to improve shipbuilding and related industrial production which advances the U.S. shipbuilding state-of-the-art.

The design of the vessels must be approved from an engineering standpoint. A U.S.-flag vessel must meet the American Bureau of Shipping standards or other such standards approved by the U.S. Coast Guard or in the case of an eligible export vessel, standards imposed by an International Association of Classification Societies member to be ISO 9000 series registered or other standards acceptable to MARAD. The shipowner or shipyard must have sufficient operating experience and the ability to operate the vessels or employ the Technology on an economically sound basis. The shipowner or shipyard must meet certain financial requirements with respect to working capital and net worth, both of which are based on such factors as the amount of the guaranteed obligations, the shipowner's or shipyard's financial strength, intended employment of the vessels or Technology, creditworthiness of the applicant and export country, etc. These factors also affect the terms of the MARAD guarantee, continuing Title XI financial covenants, guarantee fees, reserve fund, etc. All guarantees under this Program must be determined by the Secretary to be economically sound.

Procedure to Apply

Application forms and the regulations governing the Program may be obtained upon request from MARAD at the above address. Prior to filing an application, a preliminary meeting(s) should be arranged with the Director, Office of Ship Financing to discuss the Title XI application and requirements.

Approval of the application will be contingent upon the determination by the Secretary as to whether the vessels or Technology and the overall project meet all the applicable requirements of the existing statutes and regulations. If the application is approved, a letter commitment to guarantee the obligations will be issued, stating the requirements necessary for closing. If the application is not approved, the applicant will be notified in writing. Implementation of the approval of the application is accomplished through the execution of formal documentation of the transaction satisfying all the conditions in the letter commitment. At such time the guaranteed obligations (notes, bonds or other debt obligations) may be issued and sold and a secured interest or a mortgage on the vessels or Technology will be granted to the Secretary.

Completed sets of the application, including schedules and exhibits as required, should be sent to MARAD accompanied by the filing fee of $5,000, which is not refundable. Generally, application processing will take 60 days from the date the application is determined to be complete by MARAD.

Amount Guaranteed

The amount of the obligations guaranteed by the Government is based on the "actual cost" of the vessels or the Technology as determined by the Secretary. The actual cost of a vessel generally includes those items which would normally be capitalized as vessel costs under usual accounting practices, such as the cost of construction, reconstruction, or reconditioning (including designing, inspection, outfitting and equipping) of the vessel, together with construction period interest and the guarantee fee. The actual cost of Technology generally includes those items which would normally be capitalized as shipbuilding technology under usual accounting practices including construction period interest and the guarantee fee but excludes amounts payable to the manufacturer for early delivery of equipment and predelivery expenses which may not be properly capitalized as the cost of the Technology. All items of actual cost must be determined to be fair and reasonable by the Secretary. Some costs are excluded from actual cost (although sometimes considered capitalizable costs) such as legal and accounting fees, printing costs, vessel insurance and underwriting fees, and any interest on borrowings for the shipowner's equity in the vessels or shipyard's equity in the Technology.

The Act permits guarantees in an amount not exceeding 87-1/2 percent of the actual cost of (1) passenger vessels, designed to be not less than 1,000 gross tons and capable of a sustained speed of not less than 8 knots, to be used solely on inland rivers and waterways, (2) ocean-going tugs or more than 2,500 horsepower (hp), (3) barges, (4) vessels of more than 2,500 hp designed to be capable of a sustained speed of not less than 40 knots, (5) other vessels of not less than 3,500 gross tons and capable of a sustained speed of 10 knots, (6) ferries engaged solely in point-to-point transportation, not less than 75 gross tons, and capable of sustained speed of not less than 8 knots and (7) Technology. Certain other vessels are limited to 75 percent financing.

If a Title XI guarantee of obligations for a vessel is documented after delivery or for refinancing, the actual cost must be depreciated from the date of delivery to the documentation date of the guarantee. If a Title XI guarantee of obligations for Technology is approved after the Technology has been placed in service or for refinancing, the actual cost must be depreciated from the date placed in service to the documentation date of the guarantee.

Source of Funds for the Obligations

Since the Program is a guarantee program, funds for the guaranteed debt obligations are obtained in the private sector. The main sources for such funds include banks, pension funds, life insurance companies, and notes or bonds sold to the general public.

Amortization and Interest Rate

The maximum guarantee period is the lesser of 25 years or the remaining economic life of the vessel or the lesser of the life of the Technology or remaining economic life of the Technology, as determined by the Secretary. The actual financing period will be based on the financial, economic and other critical aspects of the project. Amortization in equal payments of principal is usually required; however, other amortization methods such as a level debt (equal payments of principal and interest) may be approved if sufficient security is offered such as long term charters, reduction of the amount of guarantee and/or length of guarantee period.

The interest rate of the obligations guaranteed is determined by the private sector. Generally, in establishing the interest rate the prospective obligee would utilize as a benchmark rate the interest rate carried by U.S. Treasury obligations comparable to the average life of the proposed debt issue. The rate must be determined to be fair and reasonable by the Secretary. Historically, the interest rate has been fixed for the financing period. However, we have recently approved floating interest rates with certain restrictions.

Program Fees

There are a number of MARAD fees associated with using the Program. The applicant must pay a non-refundable filing fee of $5,000 when the application is filed. Prior to issuance of the letter commitment, the applicant must pay an investigation fee of one-half of 1 percent on obligations to be issued up to and including $10,000,000 plus 1/8 of one percent on all obligations to be issued in excess of $10,000,000. The $5,000 filing fee previously paid upon filing the original application will be credited against the investigation fee.

The guarantee fee is calculated by (1) determining the amount of obligations outstanding during each year of the financing and mutiplying that amount by the guarantee fee rate applicable to the project and (2) applying a present value analysis to the amount calculated in (1) above. The guarantee fee rate is generally based on a ratio of net worth to long-term debt of the shipowner or shipyard. The rate is (1) between 1/2 of one percent to one percent for the period after vessel delivery or Technology placed in service and (2) between 1/4 of one percent to 1/2 of one-percent prior to vessel delivery or during the construction or development of Technology. Amounts on deposit for the vessel or Technology in an escrow fund held pursuant to Title XI are excluded in the computation of this fee.

The one time guarantee fee is to be paid prior to the documentation date of the guarantee. No guarantee fees paid will be refunded. The guarantee fee may be included in actual cost and is eligible to be financed.

Refinancing

Amounts outstanding on existing Title XI obligations, or amounts outstanding on obligations not previously guaranteed and applicable to vessels may be refinanced up to the applicable financing level (87-1/2 percent or 75 percent) of the depreciated actual cost of the Title XI vessels but not exceeding the amount of the existing obligations being refinanced. Only amounts outstanding on existing Title XI obligations applicable to Technology will be eligible for refinancing not exceeding the amount of the existing obligations being refinanced. Refinancing under Title XI must meet all the applicable requirements of the existing statutes and regulations, and the original debt must have been issued within one year after vessel delivery or within one year of the date the Technology was placed in service. Vessels or Technology purchased as "used" are not eligible under this provision.

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